

HARRIS COUNTY BOARD OF EDUCATION



ANNUAL FINANCIAL REPORT

**HAMILTON, GEORGIA
FOR THE FISCAL YEAR
ENDING JUNE 30, 2018**

INCLUDING INDEPENDENT AUDITOR'S REPORT

HARRIS COUNTY BOARD OF EDUCATION

- TABLE OF CONTENTS -

Page

SECTION I

FINANCIAL

INDEPENDENT AUDITOR'S REPORT

EXHIBITS

BASIC FINANCIAL STATEMENTS

	GOVERNMENT-WIDE FINANCIAL STATEMENTS	
A	STATEMENT OF NET POSITION	1
B	STATEMENT OF ACTIVITIES	2
	FUND FINANCIAL STATEMENTS	
C	BALANCE SHEET	
	GOVERNMENTAL FUNDS	3
D	RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	4
E	STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	
	GOVERNMENTAL FUNDS	5
F	RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	6
G	STATEMENT OF FIDUCIARY NET POSITION	
	FIDUCIARY FUNDS	7
H	NOTES TO THE BASIC FINANCIAL STATEMENTS	8

SCHEDULES

REQUIRED SUPPLEMENTARY INFORMATION

1	SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TEACHERS RETIREMENT SYSTEM OF GEORGIA	37
2	SCHEDULE OF CONTRIBUTIONS – TEACHERS RETIREMENT SYSTEM OF GEORGIA	38
3	SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM OF GEORGIA	39
4	SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY	
5	SCHOOL OPEB FUND	40
6	SCHEDULE OF CONTRIBUTIONS – SCHOOL OPEB FUND	41
7	NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION	42
8	SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL GENERAL FUND	43

HARRIS COUNTY BOARD OF EDUCATION

- TABLE OF CONTENTS -

Page

SECTION I

FINANCIAL

SCHEDULES

SUPPLEMENTARY INFORMATION

8	SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	44
9	SCHEDULE OF STATE REVENUE	45
10	SCHEDULE OF APPROVED LOCAL OPTION SALES TAX PROJECTS	47

SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

SECTION IV

FINDINGS AND QUESTIONED COSTS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION V

MANAGEMENT'S CORRECTIVE ACTION FOR CURRENT YEAR FINDINGS

SCHEDULE OF MANAGEMENT'S CORRECTIVE ACTION

SECTION I

FINANCIAL



DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
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Greg S. Griffin
STATE AUDITOR
(404) 656-2174

December 12, 2019

The Honorable Brian P. Kemp, Governor of Georgia
Members of the General Assembly of the State of Georgia
Members of the State Board of Education
and
Superintendent and Members of the
Harris County Board of Education

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harris County Board of Education (School District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the of the governmental activities, each major fund, and the aggregate remaining fund information of the School District as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, in 2018, the School District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended by GASB Statement No. 85, *Omnibus 2017*. The School District restated beginning net position for the effect of GASB Statement No. 75. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The *Schedule of Expenditures of Federal Awards* is presented for purposes of additional analysis as required by Title 2 U. S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2019 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

A copy of this report has been filed as a permanent record in the office of the State Auditor and made available to the press of the State, as provided for by Official Code of Georgia Annotated section 50-6-24.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Greg S. Griffin". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Greg S. Griffin
State Auditor

HARRIS COUNTY BOARD OF EDUCATION

HARRIS COUNTY BOARD OF EDUCATION

EXHIBIT "A"

STATEMENT OF NET POSITION JUNE 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 13,791,044
Receivables:	
Taxes	752,584
Intergovernmental:	
State	3,580,329
Federal	218,270
Other	6,116
Inventory	117,277
Prepaid items	155,440
Capital assets (nondepreciable)	2,702,985
Capital assets (net of accumulated depreciation)	51,690,323
Total assets	<u>73,014,368</u>
DEFERRED OUTFLOWS OF RESOURCES	
Related to pension plan	7,535,909
Related to OPEB plan	2,633,702
Total deferred outflows of resources	<u>10,169,611</u>
LIABILITIES	
Accounts payable	266,448
Salaries and benefits payable	5,991,843
Contracts payable	319,485
Retainage payable	36,535
Unearned revenue	155,301
Capital leases, due within one year	297,702
Capital leases, due in more than one year	3,974,552
Net pension liability, due in more than one year	43,674,545
Net OPEB liability, due in more than one year	43,868,189
Total liabilities	<u>98,584,600</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pension plan	1,485,921
Related to OPEB plan	3,340,451
Total deferred inflows of resources	<u>4,826,372</u>
NET POSITION	
Net investment in capital assets	49,765,034
Restricted for:	
Continuation of federal programs	1,178,990
Capital projects	1,200,866
Debt service	1,015,308
Unrestricted (Deficit)	(73,387,191)
Total net position	<u>\$ (20,226,993)</u>

HARRIS COUNTY BOARD OF EDUCATION

EXHIBIT "B"

STATEMENT OF ACTIVITIES JUNE 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Instruction	\$ 35,656,282	\$ 225,514	\$ 20,805,317	\$ -	\$ (14,625,451)
Support services:					
Pupil services	2,248,681	-	396,039	-	(1,852,642)
Improvement of instructional services	905,158	-	415,021	-	(490,137)
Educational media services	883,712	-	696,379	-	(187,333)
General administration	623,992	-	1,006,063	-	382,071
School administration	3,716,867	-	1,404,662	-	(2,312,205)
Business administration	1,397,836	-	1,719	-	(1,396,117)
Maintenance and operation of plant	4,231,575	-	1,532,098	-	(2,699,477)
Student transportation services	4,605,467	-	648,924	77,320	(3,879,223)
Central support services	280,755	-	436	-	(280,319)
Other support services	294,890	-	213,803	-	(81,087)
Operations of Non-Instructional Services					
Enterprise operations	539,787	356,753	-	-	(183,034)
Food services operation	2,726,940	1,003,403	1,362,244	12,352	(348,941)
Community service operation	299,860	-	468	-	(299,392)
Interest on long-term debt	117,261	-	-	-	(117,261)
Total governmental activities	<u>\$ 58,529,063</u>	<u>\$ 1,585,670</u>	<u>\$ 28,483,173</u>	<u>\$ 89,672</u>	<u>\$ (28,370,548)</u>
General revenues:					
Taxes:					
Property taxes, levied for maintenance and operations					\$ 24,104,490
Property taxes, levied for debt service					853,017
Sales taxes, for capital projects					2,545,083
Intangible taxes					467,167
Transfer taxes					140,275
Railroad equipment tax					21,673
Unrestricted investment earnings					33,763
Miscellaneous					976,080
Total general revenues					<u>29,141,548</u>
Change in net position					771,000
Net position, beginning of year, as restated					<u>(20,997,993)</u>
Net position, end of year					<u>\$ (20,226,993)</u>

EXHIBIT "C"

[illegible]

HARRIS COUNTY BOARD OF EDUCATION

EXHIBIT "D"

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2018

Total fund balances - governmental funds (Exhibit "C")	\$	11,666,648
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

Cost	\$	90,328,167	
Less accumulated depreciation		<u>(35,934,859)</u>	54,393,308

Other long-term assets are not available to pay for current-period expenditures
and are reported as unavailable revenue in the funds.

Property taxes			184,800
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

This includes deferred outflows and inflows of resources related to pensions

Capital leases	\$	(4,272,254)	
Net pension liability		(43,674,545)	
Net OPEB liability		(43,868,189)	
Deferred outflows - pensions		7,535,909	
Deferred inflows - pensions		(1,485,921)	
Deferred outflows - OPEB		2,633,702	
Deferred inflows - OPEB		<u>(3,340,451)</u>	<u>(86,471,749)</u>

Net position of governmental activities (Exhibit "A")	\$	<u>(20,226,993)</u>
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HARRIS COUNTY BOARD OF EDUCATION

EXHIBIT "E"

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General	Capital Projects	Debt Service	Total Governmental Funds
REVENUES				
Property taxes	\$ 24,137,326	\$ -	\$ 849,678	\$ 24,987,004
Sales taxes	586,170	2,545,083	21,272	3,152,525
Other taxes	21,673	-	-	21,673
State funds	25,730,462	-	-	25,730,462
Federal funds	2,867,727	-	-	2,867,727
Charges for services	1,585,670	-	-	1,585,670
Investment earnings	-	33,763	-	33,763
Miscellaneous	976,080	-	-	976,080
Total revenues	<u>\$ 55,905,108</u>	<u>\$ 2,578,846</u>	<u>\$ 870,950</u>	<u>\$ 59,354,904</u>
EXPENDITURES				
Current:				
Instruction	\$ 32,967,204	\$ 328,505	\$ -	\$ 33,295,709
Support services:				
Pupil services	2,235,653	1,224	-	2,236,877
Improvement of instructional services	895,087	-	-	895,087
Educational media services	845,994	-	-	845,994
General administration	612,980	-	-	612,980
School administration	3,644,302	-	-	3,644,302
Business administration	1,255,235	76,331	-	1,331,566
Maintenance and operation of plant	3,763,291	522,496	-	4,285,787
Student transportation services	4,251,664	425,109	-	4,676,773
Central support services	279,327	-	-	279,327
Other support services	293,833	-	-	293,833
Enterprise operations	539,787	-	-	539,787
Food services operations	2,580,832	-	-	2,580,832
Community service operation	299,860	-	-	299,860
Capital outlay	-	3,863,350	-	3,863,350
Debt service:				
Principal retirement	-	278,306	-	278,306
Interest and fees	-	117,261	-	117,261
Total expenditures	<u>54,465,049</u>	<u>5,612,582</u>	<u>-</u>	<u>60,077,631</u>
Net change in fund balances	1,440,059	(3,033,736)	870,950	(722,727)
FUND BALANCE, beginning of year	<u>8,373,841</u>	<u>3,878,582</u>	<u>136,952</u>	<u>12,389,375</u>
FUND BALANCE, end of year	<u>\$ 9,813,900</u>	<u>\$ 844,846</u>	<u>\$ 1,007,902</u>	<u>\$ 11,666,648</u>

HARRIS COUNTY BOARD OF EDUCATION

EXHIBIT "F"

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Net change in fund balances - total governmental funds (Exhibit "E")	\$	(722,727)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The net effect of the amount by which capital outlay exceeds depreciation is to increase net position.

Capital outlay	\$	4,377,920	
Depreciation expense		<u>(2,379,466)</u>	1,998,454

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes			(29,497)
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Issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

OPEB expense	\$	(1,106,284)	
Pension expense		352,748	
Capital lease payments		<u>278,306</u>	<u>(475,230)</u>

Changes in net position of governmental activities (Exhibit "B")	\$	<u>771,000</u>
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HARRIS COUNTY BOARD OF EDUCATION

EXHIBIT "G"

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

		Agency Funds
ASSETS		
Cash		\$ 187,131
LIABILITIES		
Funds held for others		\$ 187,131

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 1: DESCRIPTION OF SCHOOL DISTRICT AND REPORTING ENTITY

Reporting Entity

The Harris County Board of Education (the "School District") was established under the laws of the State of Georgia and operates under the guidance of a school board elected by the voters and a Superintendent appointed by the Board. The School District is organized as a separate legal entity and has the power to levy taxes and issue bonds. Its budget is not subject to approval by any other entity. Accordingly, the School District is a primary government and consists of all the organizations that compose its legal entity.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the School District's accounting policies are described below.

BASIS OF PRESENTATION

The School District's basic financial statements are collectively comprised of the government-wide financial statements, fund financial statements and notes to the basic financial statements of the Harris County Board of Education. The government-wide statements focus on the School District as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the information's usefulness.

Government-wide Statements

The Statement of Net Position and the Statement of Activities display information about the financial activities of the overall School District, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Net Position presents the School District's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories as follows:

1. **Net investment in capital assets** consists of the School District's total investment in capital assets, net of accumulated depreciation, and reduced by outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide Statements (Continued)

2. **Restricted net position** consists of resources for which the School District is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties or imposed by law through constitutional provisions or enabling legislation.
3. **Unrestricted net position** consists of resources not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities.

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expenses (expenses of the School District related to the administration and support of the School District's programs, such as office and maintenance personnel and accounting) are not allocated to programs.

Program revenues include: (a) charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the School District's funds, including fiduciary funds. Eliminations have been made to minimize the double counting of internal activities. Separate statements are presented for governmental and fiduciary funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for and reports all financial resources of the School District, except those resources required to be accounted for in another fund.
- The *Capital Projects Fund* accounts for and reports financial resources including Education Special Purpose Local Option Sales Tax (ESPLOST) that are restricted, committed, or assigned for capital outlay expenditures, including the acquisition or construction of capital facilities and other capital assets.
- The *Debt Service Fund* accounts for and reports financial resources that are restricted, committed, or assigned including taxes (property and sales) legally restricted for the payment of general long-term principal and interest.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

The School District reports the following fiduciary fund type:

- The *Agency Funds* are used to report resources held by the School District in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Basis of Accounting

The basis of accounting determines when transactions are reported on the financial statements. The School District's government-wide governmental and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the School District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, sales taxes, and grants. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from sales taxes is recognized in the fiscal year in which the underlying transaction (sale) takes place. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Governmental funds are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized when measurable and available. The School District considers all revenues reported in the governmental funds to be available if they are collected within 60 days after year-end. The School District considers all intergovernmental revenues to be available if collected within 120 days after year-end. Property taxes, sales taxes, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

The School District funds certain programs by a combination of specific cost-reimbursement grants, categorical grants, and general revenues. Thus, when program costs are incurred, there are both restricted and unrestricted net position available to finance the program. It is the School District's policy to first apply grant resources to such programs, followed by cost-reimbursement grants, then general revenues.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

The State of Georgia reimburses the School District for teachers' salaries and operating costs through the Quality Basic Education (QBE) Formula Earnings program. State of Georgia law defines the formula driven grant that determines the cost of an academic school year and the State of Georgia's share in this cost. Generally, teachers are contracted for the school year (July 1 – June 30) and paid over a 12-month contract period, generally September 1 through August 31. In accordance with the requirements of the enabling legislation of the QBE program, the State of Georgia reimburses the School District over the same 12-month period in which teachers are paid, funding the academic school year expenditures. At June 30, the amount of teachers' salaries incurred but not paid until July and August of the subsequent year are accrued as the State of Georgia has only postponed the final payment of their share of the cost until the subsequent appropriations for cash management purposes. By June 30 of each year, the State of Georgia has a signed appropriation that includes this final amount, which represents the State of Georgia's intent to fund this final payment. Based on guidance in Government Accounting Standards Board (GASB) Statement No. 33, paragraph 74, the State of Georgia recognizes its QBE liability for the July and August salaries at June 30, and the School District recognizes the same QBE as a receivable and revenue, consistent with symmetrical recognition.

New Accounting Pronouncements

In fiscal year 2018, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The adoption of this statement has a significant impact on the School District's financial statements. As noted in the Restatement of Net Position note disclosure, the School District restated beginning net position for the cumulative effect of this accounting change.

In fiscal year 2018, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 81, *Irrevocable Split-Interest Agreements*. This statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This statement requires that a government recognize revenue when the resources become applicable to the reporting period. The adoption of this statement does not have a significant impact on the School District's financial statements.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncements (Continued)

In fiscal year 2018, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (pensions and other post-employment benefits [OPEB]). The adoption of this statement does not have a significant impact on the School District's financial statements.

In fiscal year 2018, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The adoption of this statement does not have a significant impact on the School District's financial statements.

Cash and Cash Equivalents

Composition of Deposits – Cash and cash equivalents consist of cash on hand, demand deposits, investments in the State of Georgia local government investment pool (Georgia Fund 1) and short-term investments with original maturities of three months or less from the date of acquisition in authorized financial institutions. Official Code of Georgia Annotated (O.C.G.A.) Section 45-8-14 authorizes the School District to deposit its funds in one or more solvent banks, insured Federal savings and loan associations, or insured chartered building and loan associations.

Receivables

Receivables consist of amounts due from property and sales taxes; grant reimbursements due on Federal, state or other grants for expenditures made, but not reimbursed; and other receivables disclosed from information available. Receivables are recorded when either the asset or revenue recognition criteria has been met. Receivables recorded in the basic financial statements do not include any amounts which would necessitate the need for an allowance for uncollectible receivables.

Due to other funds and due from other funds consisting of activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Food Inventories – On the basic financial statements, inventories of donated food commodities used in the preparation of meals are reported at their Federally assigned value and purchased foods inventories are reported at cost (first-in, first-out basis). The School District uses the consumption method to account for inventories whereby donated food commodities are recorded as an asset and as revenue when received and expenses/expenditures are recorded as the inventory items are used. Purchased foods are recorded as an asset when purchased and expenses/expenditures are recorded as the inventory items are used.

Prepaid Items

Payments made to vendors for services that will benefit future accounting periods are recorded as prepaid items, in both the government-wide and governmental fund financial statements.

Capital Assets

On the government-wide financial statements, capital assets are recorded at cost where historical records are available and at estimated historical cost based on appraisals or deflated current replacement cost where no historical records exist. Donated capital assets are recorded at acquisition value on the date donated. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend the useful lives of the assets is not capitalized. The School District does not capitalize book collections or works of art.

Capital acquisition and construction are recorded as expenditures in the governmental fund financial statements at the time of purchase (including ancillary charges), and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Depreciation is computed using the straight-line for all assets, except land, and is used to allocate the actual or estimated historical cost of capital assets over estimated useful lives.

Capitalization thresholds and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	All	N/A
Land Improvements	\$ 10,000	15 to 80 Years
Buildings and Improvements	\$ 10,000	Up to 50 Years
Equipment	\$ 5,000	5 to 50 Years
Intangible Assets	\$ 500,000	5 to 80 Years

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or governmental funds balance sheet will report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of resources that applies to a future period(s) and, therefore, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and/or governmental funds balance sheet will report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of resources that applies to a future period(s) and, therefore, will not be recognized as an inflow of resources (revenue) until that time.

Long-Term Liabilities

In the School District's government-wide financial statements, outstanding debt is reported as liabilities. In the fund statements, governmental fund types report the face amount of debt issued as other financing sources.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Post-Employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Georgia School Employees Post-Employment Benefit Fund (School OPEB Fund) and additions to/deductions from School OPEB Fund fiduciary net position have been determined on the same basis as they are reported by School OPEB Fund. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balance

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (Continued)

The School District's fund balances are classified as follows:

Nonspendable – Amounts that are not in a spendable form (e.g., inventory and prepaid items) or are legally or contractually required to be maintained intact (e.g., permanent fund principal).

Restricted – Constraints placed on the use of resources are either (1) externally imposed conditions by creditors, grantors, contributors, or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts that can only be used for the specific purposes determined by a formal action of the Board of Education. The Board of Education is the School District's highest level of decision-making authority, and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Board. Committed fund balance also should incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts that are constrained by the School District's intent to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by (1) the Board of Education or (2) the budget or finance committee, or the Superintendent, or designee, to assign amounts to be used for specific purposes.

Unassigned – Amounts within the general fund not meeting the definition of any aforementioned category. The general fund is the only fund that reports positive unassigned fund balance. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

The fund balance of the School District's general fund has been accumulated to meet the purpose of providing stability and flexibility to respond to unexpected adversity and/or opportunities. The School District's basic goal is to maintain annual expenditure increases necessary to provide a consistent educational environment satisfactory to its citizens and to limit expenditures to anticipate revenue in order to maintain a balanced budget. When multiple categories of fund balance are available for expenditure, the School District will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes

The Harris County Board of Commissioners set the property tax levy for the 2017 tax digest year (calendar year) on August 11, 2017 (levy date) based on property values as of January 1, 2017. Taxes were due on December 20, 2017 (lien date). Taxes collected within the current fiscal year or within 60 days after year-end on the 2017 tax digest are reported as revenue in the governmental funds for fiscal year 2018. The Harris County Tax Commissioner bills and collects the property taxes for the School District, withholds 2.5% of taxes collected as a fee for tax collection and remits the balance of taxes collected to the School District. Property tax revenues, at the fund reporting level, during the fiscal year ended June 30, 2018, for maintenance and operations and debt service amounted to \$22,567,599 and \$803,940, respectively.

The tax millage rates levied for the 2017 tax year (calendar year) for the Harris County Board of Education were as follows (a mill equals \$1 per thousand dollars of assessed value):

School Operations	17.91 mills
School Bonds	<u>0.65 mills</u>
Total	<u>18.56 mills</u>

Additionally, Title Ad Valorem Tax revenues, at the fund reporting level, during fiscal year ended June 30, 2018, for maintenance and operations and debt service, amounted to \$1,569,727 and \$45,738, respectively.

Sales Taxes

Education Special Purpose Local Option Sales Tax (ESPLOST), at the fund reporting level, during the year amounted to \$2,545,083 and is to be used for capital outlay for educational purposes or debt service. This sales tax was authorized by local referendum and the sales tax must be re-authorized at least every five years.

NOTE 3: BUDGETARY DATA

The budget is a complete financial plan for the School District's fiscal year, and is based upon careful estimates of expenditures together with probable funding sources. The budget is legally adopted each year for the general, debt service, and capital projects funds. There is no statutory prohibition regarding over expenditure of the budget at any level. The budget for all governmental funds, except the various school activity (principal) accounts and the after school program, is prepared and adopted by fund, function and object. The legal level of budgetary control was established by the Board at the aggregate fund level. The budget for the general fund was prepared in accordance with accounting principles generally accepted in the United States of America.

The budgetary process begins with the School District's administration presenting an initial budget for the Board's review. The administration makes revisions as necessary based on the Board's guidelines and a tentative budget is approved. After approval of this tentative budget by the Board, such budget is advertised at least once in a newspaper of general circulation in the locality, as well as the School District's website.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 3: BUDGETARY DATA (CONTINUED)

At the next regularly scheduled meeting of the Board after advertisement, the Board receives comments on the tentative budget, makes revisions as necessary and adopts a final budget. The approved budget is then submitted, in accordance with provisions of O.C.G.A. section 20-2-167(c), to the Georgia Department of Education. The Board may increase or decrease the budget at any time during the year. All unexpended budget authority lapses at fiscal year-end.

See the General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual in the Supplementary Information Section for a detail of any over/under expenditures during the fiscal year under review.

NOTE 4: DEPOSITS AND INVESTMENTS

Collateralization of Deposits – The O.C.G.A. Section 45-8-12 provides that there shall not be on deposit at any time in any depository for a time longer than ten days a sum of money which has not been secured by surety bond, by guarantee of insurance, or by collateral. The aggregate of the face value of such surety bond and the market value of securities pledged shall be equal to not less than 110% of the public funds being secured after the deduction of the amount of deposit insurance. If a depository elects the pooled method (O.C.G.A. 45-8-13.1) the aggregate of the market value of the securities pledged to secure a pool of public funds shall be not less than 110% of the daily pool balance.

Acceptable security for deposits consists of any one of or any combination of the following:

- (1) Surety bond signed by a surety company duly qualified and authorized to transact business within the State of Georgia,
- (2) Insurance on accounts provided by the Federal Deposit Insurance Corporation,
- (3) Bonds, bills, notes, certificates of indebtedness or other direct obligations of the United States or of the State of Georgia,
- (4) Bonds, bills, notes, certificates of indebtedness or other obligations of the counties or municipalities of the State of Georgia,
- (5) Bonds of any public authority created by the laws of the State of Georgia, providing that the statute that created the authority authorized the use of the bonds for this purpose,
- (6) Industrial revenue bonds and bonds of development authorities created by the laws of the State of Georgia, and
- (7) Bonds, bills, notes, certificates of indebtedness, or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest or debt obligations issued by or securities guaranteed by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank for Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Association, and the Federal National Mortgage Association.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 4: DEPOSITS AND INVESTMENTS (CONTINUED)

Categorization of Deposits

Custodial credit risk is the risk that, in the event of bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At June 30, 2018, the School District had deposits with a carrying amount of \$12,468,956 (excluding cash equivalents) and a bank balance of \$13,388,242. The bank balances insured by Federal depository insurance were \$500,000 and the bank balances collateralized with securities held by the pledging institution's trust department or agent in the School District's name were \$718,152.

At June 30, 2018, \$12,170,090 of the School District's bank balance was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$	-
Uninsured with collateral held by the pledging financial institution		-
Uninsured with collateral held by the pledging financial institution's trust department or agent but not in the School District's name		<u>12,170,090</u>
Total	\$	<u><u>12,170,090</u></u>

Reconciliation of cash and cash equivalents to carrying value of deposits:

Statement of Net Position	
Cash and cash equivalents	\$ 13,791,044
Statement of Fiduciary Net Position	
Cash and cash equivalents	<u>187,131</u>
Total cash and cash equivalents	13,978,175
Less: Investment pool reported as cash and cash equivalents:	
Georgia Fund 1	<u>(1,509,219)</u>
Total carrying value of deposits - June 30, 2018	\$ <u><u>12,468,956</u></u>

Categorization of Cash Equivalents

The School District reported cash equivalents of \$1,509,219 in Georgia Fund 1, a local government investment pool, which is included in the cash balances above. Georgia Fund 1 is not registered with the SEC as an investment company and does not operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. The investment is valued at the pool's share price, \$1 per share, which approximates fair value. The pool is an AA+ rated investment pool by Standard and Poor's. The weighted average maturity of Georgia Fund 1 may not exceed 60 days. The weighted average maturity for Georgia Fund 1 on June 30, 2018, was 10 days.

HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

EXHIBIT "H"

NOTE 4: DEPOSITS AND INVESTMENTS (CONTINUED)

Georgia Fund 1, administered by the State of Georgia, Office of the State Treasurer is not required to be categorized since the School District did not own any specific identifiable securities in the pool. The investment policy of the State of Georgia, Office of the State Treasurer for the Georgia Fund 1 does not provide for investment in derivatives or similar investments. Additional information on the Georgia Fund 1 is disclosed in the State of Georgia Comprehensive Annual Financial Report. This audit can be obtained from the Georgia Department of Audits and Accounts at www.audits.ga.gov/SGD/CAFR.html.

NOTE 5: NON-MONETARY TRANSACTIONS

The School District receives food commodities from the United States Department of Agriculture (USDA) for school breakfast and lunch programs. These commodities are recorded at their Federally assigned value. See **Note 2 – Inventories**.

NOTE 6: CAPITAL ASSETS

The following is a summary of changes in the capital assets of governmental activities during the fiscal year:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<u>Governmental activities:</u>					
Capital assets, not being depreciated:					
Land	\$ 2,315,664	\$ -	\$ -	\$ -	\$ 2,315,664
Construction in progress	21,094	3,299,825	-	(2,933,598)	387,321
Total	<u>2,336,758</u>	<u>3,299,825</u>	<u>-</u>	<u>(2,933,598)</u>	<u>2,702,985</u>
Capital assets, being depreciated:					
Buildings and improvements	69,215,043	318,917	-	2,933,598	72,467,558
Equipment	10,484,289	759,178	(171,640)	-	11,071,827
Land improvements	4,085,797	-	-	-	4,085,797
Total	<u>83,785,129</u>	<u>1,078,095</u>	<u>(171,640)</u>	<u>2,933,598</u>	<u>87,625,182</u>
Less accumulated depreciation for:					
Buildings and improvements	(23,160,240)	(1,644,302)	-	-	(24,804,542)
Equipment	(7,811,524)	(583,746)	171,640	-	(8,223,630)
Land improvements	(2,755,269)	(151,418)	-	-	(2,906,687)
Total	<u>(33,727,033)</u>	<u>(2,379,466)</u>	<u>171,640</u>	<u>-</u>	<u>(35,934,859)</u>
Total capital assets, being depreciated, net	<u>50,058,096</u>	<u>(1,301,371)</u>	<u>-</u>	<u>2,933,598</u>	<u>51,690,323</u>
Governmental activities capital assets, net	<u>\$ 52,394,854</u>	<u>\$ 1,998,454</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,393,308</u>

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 6: CAPITAL ASSETS (CONTINUED)

Current year depreciation expense by function is as follows:

Instruction		\$ 1,827,840
Support Services		
Educational Media Services	\$ 28,804	
General Administration	1,000	
School Administration	32,226	
Maintenance and Operations	21,348	
Student Transportation	370,334	453,712
Food Services		97,914
Total Depreciation Expense		<u>\$ 2,379,466</u>

NOTE 7: RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; job related illness or injuries to employees, and natural disasters. The School District carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The School District is self-insured with regard to unemployment compensation claims. The School District accounts for claims within the general fund with expenses/expenditures and liability being reported when it is probable that a loss has occurred, and the amount of that loss can be reasonably estimated. The School District has not experienced any losses related to this risk in the past two years.

The School District purchases a surety bond to provide additional insurance coverage as follows:

<u>Position Covered</u>	<u>Amount</u>
Superintendent	\$ 50,000

NOTE 8: LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

The changes in long-term debt during the fiscal year ended June 30, 2018, for governmental activities, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Energy Leases	\$ 4,550,560	\$ -	\$ (278,306)	\$ 4,272,254	\$ 297,702
Net Pension Liability	48,177,986	6,036,821	(10,540,262)	43,674,545	-
Net OPEB Liability	45,096,648	3,739,986	(4,968,445)	43,868,189	-
Total	<u>\$ 97,825,194</u>	<u>\$ 9,776,807</u>	<u>\$ (15,787,013)</u>	<u>\$ 91,814,988</u>	<u>\$ 297,702</u>

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 8: LONG-TERM LIABILITIES

Changes in Long-Term Liabilities (Continued)

Voters have authorized \$3,000,000 in general obligation debt for completion of SPLOST V projects, which was not issued as of June 30, 2018.

Energy Leases

An energy efficiency lease agreement dated June 28, 2013, was executed by and between the School District, the lessee, and Banc of America Public Capital Corp, the lessor. The agreement authorized the borrowing of \$5,399,010 for the purchase of energy efficiency equipment and building modifications. Payments of the lease shall be made from the School District's capital projects fund.

The following assets were acquired through the energy efficiency lease and are reflected in the capital asset note at fiscal year-end:

	<u>Governmental Activities</u>
Buildings and Improvements	\$ 5,399,010
Less: Accumulated Depreciation	<u>(1,619,703)</u>
	<u><u>\$ 3,779,307</u></u>

Energy leases currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Energy Upgrade	2.64%	2013	2028	<u>\$ 5,399,010</u>	<u>\$ 4,272,254</u>

The following is a schedule of total energy installment agreement payments:

<u>Fiscal Year Ended June 30</u>	<u>Energy Lease</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 297,702	\$ 109,732
2020	317,977	101,682
2021	339,159	93,088
2022	361,287	83,927
2023	384,398	74,173
2024-2028	2,305,767	201,888
2029	<u>265,964</u>	<u>2,633</u>
Total Principal and Interest	<u>\$ 4,272,254</u>	<u>\$ 667,123</u>

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 9: SIGNIFICANT COMMITMENTS

Commitments under Construction Contracts

The following is an analysis of significant outstanding construction commitments executed by the School District as of June 30, 2018:

<u>Project</u>	<u>Unearned Executed Contracts</u>
Harris County Transportation - Fueling Station	<u>\$ 46,807</u>

The amount described is not reflected in the basic financial statements.

NOTE 10: OPERATING LEASES

The School District leases copiers under the provisions of one or more long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases totaled \$111,366 for governmental activities for the year ended June 30, 2018. The following future minimum lease payments were required under operating leases at June 30, 2018:

<u>Fiscal Year Ended June 30</u>	<u>Governmental Funds</u>
2019	\$ 74,797
2020	18,139
2021	3,858
	<u>\$ 96,794</u>

NOTE 11: OTHER POST-EMPLOYMENT BENEFITS

Georgia School Personnel Post-Employment Health Benefit Fund

Plan Description. Certified teachers and non-certified public school employees of the School District as defined in Section 20-2-875 of the Official Code of Georgia Annotated (O.C.G.A.) are provided OPEB through the School OPEB Fund - a cost-sharing multiple-employer defined benefit post-employment healthcare plan, reported as an employee trust fund and administered by a Board of Community Health (Board). Title 20 of the O.C.G.A. assigns the authority to establish and amend the benefit terms of the group health plan to the Board.

Benefits Provided. The School OPEB Fund provides healthcare benefits for retirees and their dependents due under the group health plan for public school teachers, including librarians, other certified employees of public schools, regional educational service agencies and non-certified public school employees. Retiree medical eligibility is attained when an employee retires and is immediately eligible to draw a retirement annuity from Employees' Retirement System (ERS), Georgia Judicial Retirement System (JRS), Legislative Retirement System (LRS), Teachers Retirement System (TRS) or Public School Employees Retirement System (PSERS). If elected,

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 11: OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

Georgia School Personnel Post-Employment Health Benefit Fund (Continued)

dependent coverage starts on the same day as retiree coverage. Medicare-eligible retirees are offered Standard and Premium Medicare Advantage plan options. Non-Medicare eligible retiree plan options include Health Reimbursement Arrangement (HRA), Health Maintenance Organization (HMO) and a High Deductible Health Plan (HDHP). The School OPEB Fund also pays for administrative expenses of the fund. By law, no other use of the assets of the School OPEB Fund is permitted.

Contributions. As established by the Board, the School OPEB Fund is substantially funded on a pay-as-you-go basis; that is, annual cost of providing benefits will be financed in the same year as claims occur. Contributions to the School OPEB Fund from the School District were \$1,623,520 for the year ended June 30, 2018. Active employees are not required to contribute to the School OPEB Fund.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the School District reported a liability of \$43,868,189 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017. The total OPEB liability used to calculate the net OPEB liability was based on an actuarial valuation as of June 30, 2016. An expected total OPEB liability as of June 30, 2017, was determined using standard roll-forward techniques. The School District's proportion of the net OPEB liability was actuarially determined based on employer contributions during the fiscal year ended June 30, 2017. At June 30, 2017, the School District's proportion was 0.312230%, which was an increase of 0.007940% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the School District recognized OPEB expense of \$2,729,804. At June 30, 2018, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPEB	
	Deferred Outflow of Resources	Deferred Inflow of Resources
Changes in assumptions	\$ -	\$ 3,340,451
Net difference between projected and actual earnings on OPEB plan investments	12,831	-
Changes in proportion and differences between School District contributions and proportionate share of contributions	997,351	-
School District contributions subsequent to the measurement date	1,623,520	-
Total	<u>\$ 2,633,702</u>	<u>\$ 3,340,451</u>

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 11: OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

School District contributions subsequent to the measurement date of \$1,623,520, are reported as deferred outflows of resources and will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended June 30	OPEB
2019	\$ (418,214)
2020	(418,214)
2021	(418,214)
2022	(418,214)
2023	(421,422)
2024	(235,991)

Actuarial assumptions. The total OPEB liability as of June 30, 2017, was determined by an actuarial valuation as of June 30, 2016 using the following actuarial assumptions and other inputs, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017:

OPEB:

Inflation	2.75%
Salary increases	
ERS	3.25% – 7.00%, average, including inflation
JRS	4.50%, including inflation
LRS	None
TRS	3.25 – 9.00%, including inflation
PSERS	N/A
Long-term expected rate of return	3.88%, compounded annually, net of investment expense, and including inflation
Healthcare cost trend rate	
Pre-Medicare Eligible	7.75%
Medicare Eligible	5.75%
Ultimate trend rate	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate trend rate	2022

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 11: OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale BB as follows:

- For ERS, JRS and LRS members: The RP-2000 Combined Mortality Table projected to 2025 with projection scale BB and set forward two years for both males and females is used for the period after service retirement and for dependent beneficiaries. The RP-2000 Disabled Mortality Table projected to 2025 with projection scale BB and set back seven years for males and set forward three years for females is used for the period after disability retirement.
- For TRS members: The RP-2000 White Collar Mortality Table projected to 2025 with projection scale BB and set forward one year for males is used for death after service retirement and beneficiaries. The RP-2000 Disabled Mortality Table projected to 2025 with projection scale BB set forward two years for males and four years for females is used for death after disability retirement.
- For PSERS members: The RP-2000 Blue-Collar Mortality Table projected to 2025 with projection scale BB (set forward three years for males and two years for females) is used for the period after service retirement and for beneficiaries of deceased members. The RP-2000 Disabled Mortality Table projected to 2025 with projection scale BB (set forward five years for both males and females) is used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the pension systems, which covered the five-year period ended June 30, 2014.

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculation.

Additionally, there was a change that affected measurement of the total OPEB liability since the prior measurement date. The methodology used to determine employee and retiree participation in the School OPEB Fund is based on their current or last employer payroll location. Current and former employees of public school districts, libraries, regional educational service agencies and community colleges are allocated to the School OPEB Fund irrespective of retirement system affiliation. In addition, the discount rate increased from 3.07% to 3.58%.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 11: OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

The long-term expected rate of return on OPEB plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Rate of Return*</u>
Local government investment pool	100.00%	1.13%

*Rate shown is net of 2.75% assumed rate of inflation

Discount rate. In order to measure the total OPEB liability for the School OPEB Fund, a single equivalent interest rate of 3.58% was used as the discount rate. This is comprised mainly of the yield or index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA or higher (3.56% per the Bond Buyers Index). The projection of cash flows used to determine the discount rate assumed that contributions from members and from the employer will be made at the current level as averaged over the last five years, adjusted for annual projected changes in headcount. Projected future benefit payments for all current plan members were projected through 2115. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make OPEB payments for inactive employees through year 2029. Therefore, the calculated discount rate of 3.58% was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 3.58%, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1 percentage-point higher (4.58%) than the current discount rate:

<i>School OPEB Fund - Discount Rate</i>	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
School District's proportionate share of the OPEB liability	\$ 52,085,617	\$ 43,868,189	\$ 37,382,975

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 11: OTHER POST-EMPLOYMENT BENEFITS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the School District's proportionate share of the net OPEB liability, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

<i>School OPEB Fund - Healthcare Cost Trend Rate</i>	1%	Current	1%
	Decrease	Healthcare Cost Trend Rate	Increase
School District's proportionate share of the OPEB liability	\$ 36,361,731	\$ 43,868,189	\$ 53,641,587

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the Comprehensive Annual Financial Report (CAFR) which is publicly available at <https://sao.georgia.gov/comprehensive-annual-financial-reports>.

NOTE 12: RETIREMENT PLANS

The School District participates in various retirement plans administered by the State of Georgia, as further explained below.

Teachers Retirement System of Georgia (TRS)

Plan Description. All teachers of the School District as defined in §47-3-60 of the Official Code of Georgia Annotated (O.C.G.A.) and certain other support personnel as defined by §47-3-63, are provided a pension through the Teacher Retirement System of Georgia (TRS). TRS, a cost-sharing multiple-employer defined benefit pension plan, is administered by the TRS Board of Trustees (TRS Board). Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. The Teachers Retirement System of Georgia issues a publicly available separate financial audit report that can be obtained at www.trsga.com/publications.

Benefits Provided. TRS provides service retirement, disability retirement, and death benefits. Normal retirement benefits are determined as 2% of the average of the employee's two highest paid consecutive years of service, multiplied by the number of years of creditable service up to 40 years. An employee is eligible for normal service retirement after 30 years of creditable service, regardless of age, or after 10 years of service and attainment of age 60. Ten years of service is required for disability and death benefits eligibility. Disability benefits are based on the employee's creditable service and compensation up to the time of disability. Death benefits equal the amount that would be payable to the employee's beneficiary had the employee retired on the date of death. Death benefits are based on the employee's creditable service and compensation up to the date of death.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 12: RETIREMENT PLANS (CONTINUED)

Teachers Retirement System of Georgia (TRS) (Continued)

Contributions. Per Title 47 of the O.C.G.A., contribution requirements of active employees and participating employers, as actuarially determined, are established and may be amended by the TRS Board. Pursuant to O.C.G.A. §47-3-63, the employer contributions for certain full-time public school support personnel are funded on behalf of the employer by the State of Georgia. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees were required to contribute 6% of their annual pay during fiscal year 2018. The School District's contractually required contribution rate for the year ended June 30, 2018, was 16.81% of annual school district payroll, of which 16.76% of payroll was required from the School District and 0.05% of payroll was required from the State. For the current fiscal year, employer contributions to the pension plan were \$4,740,033 and \$15,745 from School District and the State, respectively.

Public School Employees Retirement System (PSERS)

Plan Description. PSERS is a cost-sharing multiple-employer defined benefit pension plan established by the Georgia General Assembly in 1969 for the purpose of providing retirement allowances for public school employees who are not eligible for membership in the Teachers Retirement System of Georgia. The ERS Board of Trustees, plus two additional trustees, administer PSERS. Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. PSERS issues a publicly available financial report that can be obtained at www.ers.ga.gov/formspubs/formspubs.

Benefits Provided. A member may retire and elect to receive normal monthly retirement benefits after completion of 10 years of creditable service and attainment of age 65. A member may choose to receive reduced benefits after age 60 and upon completion of 10 years of service.

Upon retirement, the member will receive a monthly benefit of \$14.75, multiplied by the number of years of creditable service. Death and disability benefits are also available through PSERS. Additionally, PSERS may make periodic cost of living adjustments to the monthly benefits. Upon termination of employment, member contributions with accumulated interest are refundable upon request by the member. However, if an otherwise vested member terminates and withdraws his/her member contribution, the member forfeits all rights to retirement benefits.

Contributions. The general assembly makes an annual appropriation to cover the employer contribution to PSERS on behalf of local school employees (bus drivers, cafeteria workers, and maintenance staff). The annual employer contribution required by statute is actuarially determined and paid directly to PSERS by the State Treasurer in accordance with O.C.G.A. §47-4-29(a) and 60(b). Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 12: RETIREMENT PLANS (CONTINUED)

Public School Employees Retirement System (PSERS) (Continued)

Individuals who became members prior to July 1, 2012 contribute \$4 per month for nine months each fiscal year. Individuals who became members on or after July 1, 2012 contribute \$10 per month for nine months each fiscal year. The State of Georgia, although not the employer of PSERS members, is required by statute to make employer contributions actuarially determined and approved and certified by the PSERS Board of Trustees. The current fiscal year contribution was \$108,549.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the School District reported a liability of \$43,674,545 for its proportionate share of the net pension liability for TRS.

The TRS net pension liability reflected a reduction for support provided to the School District by the State of Georgia for certain public school support personnel. The amounts recognized by the School District as its proportionate share of the net pension liability, the related State of Georgia support, and the total portion of the net pension liability that was associated with the School District were as follows:

School District's proportionate share of the net pension liability	\$ 43,674,545
State of Georgia's proportionate share of the net pension liability associated with the School District	419,099
	<u>\$ 44,093,644</u>

The net pension liability for TRS was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2017, was determined using standard roll-forward techniques. The School District's proportion of the net pension liability was based on contributions to TRS during the fiscal year ended June 30, 2017.

At June 30, 2017, the School District's TRS proportion was 0.234995%, which was an increase of 0.001474% from its proportion measured as of June 30, 2016.

At June 30, 2018, the School District did not have a PSERS liability for a proportionate share of the net pension liability because of a Special Funding Situation with the State of Georgia, which is responsible for the net pension liability of the plan. The amount of the State's proportionate share of the net pension liability associated with the School District is \$567,716.

The PSERS net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2017 was determined using standard roll-forward techniques. The State's proportion of the net pension liability associated with the School District was based on actuarially determined contributions paid by the State during the fiscal year ended June 30, 2017.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 12: RETIREMENT PLANS (CONTINUED)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

For the year ended June 30, 2018, the School District recognized pension expense of \$4,384,047 for TRS and \$114,417 for PSERS and revenue of \$15,467 for TRS and \$114,417 for PSERS. The revenue is support provided by the State of Georgia. For TRS the State of Georgia support is provided only for certain support personnel.

At June 30, 2018, the School District reported deferred outflows of resource and deferred inflows of resources related to pension from the following sources:

	TRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,633,697	\$ 164,823
Changes of assumptions	957,400	-
Net difference between projected and actual earnings on pension plan investments	-	300,554
Changes in proportion and differences between School District contributions and proportionate share of contributions	204,779	1,020,544
School District contributions subsequent to the measurement date	4,740,033	-
Total	<u>\$ 7,535,909</u>	<u>\$ 1,485,921</u>

School District contributions subsequent to the measurement date of \$4,740,033 for TRS are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended June 30	TRS
2019	\$ (683,270)
2020	1,986,141
2021	1,067,240
2022	(1,091,571)
2023	31,415

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 12: RETIREMENT PLANS (CONTINUED)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions: The total pension liability as of June 30, 2017, was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Teachers Retirement System

Inflation	2.75%
Salary increases	3.25 – 9.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Post-retirement mortality rates were based on the RP-2000 White Collar Mortality Table with future mortality improvement projected to 2025 with the Society of Actuaries' projection scale BB (set forward one year for males) for service requirements and dependent beneficiaries. The RP-2000 Disabled Mortality table with future mortality improvement projected to 2025 with Society of Actuaries' projection scale BB (set forward two years for males and four years for females) was used for death after disability retirement. Rates of mortality in active service were based on the RP-2000 Employee Mortality Table projected to 2025 with projection scale BB.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014.

Public School Employees Retirement System

Inflation	2.75%
Salary increases	N/A
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Post-retirement mortality rates were based on the RP-2000 Blue-Collar Mortality Table projected to 2025 with projection scale BB (set forward three years for males and two years for females) for the period after service retirements and for dependent beneficiaries. The RP-2000 Disabled Mortality projected to 2025 with projection scale BB (set forward five years for both males and females) was used for death after disability retirement. There is a margin for future mortality improvement in the tables used by the System. Based on the results of the most recent experience study adopted by the Board on December 17, 2015, the numbers of expected future deaths are 9-11% less than the actual number of deaths that occurred during the study period for healthy retirees and 9-11% less than expected under the selected table for disabled retirees. Rates of mortality in active service were based on the RP-2000 Employee Mortality Table projected to 2025 with projection scale BB.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 12: RETIREMENT PLANS (CONTINUED)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The long term expected rate of return on TRS and PSERS pension plan investments was determined using a log normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	TRS Target Allocation	PSERS Target Allocation	Long-term expected real rate of return*
Fixed income	30.00%	30.00%	(0.50)%
Domestic large stocks	39.80%	37.20%	9.00%
Domestic mid stocks	3.70%	3.40%	12.00%
Domestic small stocks	1.50%	1.40%	13.50%
International developed market stocks	19.40%	17.80%	8.00%
International emerging market stocks	5.60%	5.20%	12.00%
Alternative	-	5.00%	10.50%
Total	100.00%	100.00%	

* Rates shown are net of the 2.75% assumed rate of inflation

Discount Rate. The discount rate used to measure the total TRS and PSERS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and nonemployer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the TRS and PSERS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate: The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

Teachers Retirement System	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
School District's proportionate share of the net pension liability	\$ 71,675,052	\$ 43,674,545	\$ 20,608,420

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 12: RETIREMENT PLANS (CONTINUED)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS and PSERS financial report which is publicly available at www.trsga.com/publications and <http://www.ers.ga.gov/formspubs/formspubs.html>.

Defined Contribution Plan

On August 1, 2007, the School District began an employer paid 403(b) annuity plan for the group of employees covered under the Public School Employees Retirement System (PSERS). Recognizing that PSERS was a limited defined contribution and defined benefit plan which did not provide for an adequate retirement for this group of employees, it was the Board's desire to supplement the retirement of this group.

The School District selected Lincoln Financial Group as the provider for this plan. For each employee covered under PSERS, the Board began contributing to the plan an amount equal to 3% of the employee's base pay.

The employee becomes vested in the plan with three years of experience. Employees who had already achieved three years of experience at the time the plan was implemented were vested upon enrollment.

Funds accumulated in the employer paid account are only available to the employee upon termination of employment and three years of service to Harris County Board of Education. If an employee terminated employment prior to achieving three years of service, funds paid on behalf of the non-vested employee are credited back to the School District.

Employer contributions for the current fiscal year and the preceding two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Percent Contributed</u>	<u>Required Contribution</u>
2018	100%	\$ 698,527
2017	100%	\$ 667,919
2016	100%	\$ 640,179

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 13: SIGNIFICANT CONTINGENT LIABILITIES

Amounts received or receivable principally from the Federal government are subject to audit and review by grantor agencies. This could result in requests for reimbursement to the grantor agency for any costs which are disallowed under grant terms. Any disallowances resulting from the grantor audit may become a liability of the School District. However, the School District believes that such disallowances, if any, will be immaterial to its overall financial position:

The School District is a defendant in various legal proceedings pertaining to matters incidental to the performance of routine School District operations. The ultimate disposition of these proceedings is not presently determinable, but is not believed to have a material adverse effect on the financial condition of the School District.

NOTE 14: TAX ABATEMENTS

Harris County enters into property tax abatement agreements with local businesses for the purpose of attracting or retaining businesses within their jurisdictions. The abatements may be granted to any business located within or promising to relocate to Harris County.

For the fiscal year ended June 30, 2018, Harris County abated property taxes due to the School District that were levied on August 11, 2017, and due on December 20, 2017, totaling \$199,072. Included in that amount abated, the following are individual tax abatement agreements that each exceeded 10% of the total amount abated:

- A 50 percent property tax abatement to a logistics company for the purpose of increasing employment in Harris County. The abatement amounted to \$56,027.
- A 30 percent property tax abatement to a land conservation for the purpose of increasing employment in Harris County. The abatement amounted to \$131,448.

NOTE 15: CHANGE IN ACCOUNTING PRINCIPLE

In fiscal year 2018, the School District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The provisions of this statement establish accounting and financial reporting standards for post-employment benefits for retired employees of state and local governmental employers through pension plans that are administered through trusts. Implementation of this statement required the School District to record a liability for its proportionate share of the Net OPEB Liability of the School OPEB Fund.

**HARRIS COUNTY BOARD OF EDUCATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

EXHIBIT "H"

NOTE 15: CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)

The following adjustment was required to net position of governmental activities to record the net OPEB liability as of July 1, 2017:

Net position, Governmental Activities, previously reported	\$ 22,470,660
Deferred outflows, contributions subsequent to measurement date	1,627,994
Proportionate share of Net OPEB liability	<u>(45,096,647)</u>
Net position, Governmental Activities, as restated	<u>\$ (20,997,993)</u>

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HARRIS COUNTY BOARD OF EDUCATION

SCHEDULE "1"

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TEACHERS RETIREMENT SYSTEM OF GEORGIA FOR THE FISCAL YEAR ENDED JUNE 30

	2018	2017	2016	2015
School District's proportion of the net pension liability	0.234995%	0.233521%	0.237518%	0.243346%
School District's proportionate share of the net pension liability	\$ 43,674,545	\$ 48,177,986	\$ 36,159,757	\$ 30,743,557
State of Georgia's proportionate share of the net pension liability associated with the School District	419,099	763,970	529,339	472,373
Total	<u>\$ 44,093,644</u>	<u>\$ 48,941,956</u>	<u>\$ 36,689,096</u>	<u>\$ 31,215,930</u>
School District's covered payroll	\$ 27,264,400	\$ 26,025,629	\$ 25,060,528	\$ 25,104,204
School District's proportionate share of the net pension liability as a percentage of its covered payroll	160.19%	185.12%	144.29%	122.46%
Plan fiduciary net position as a percentage of the total pension liability	79.33%	76.06%	81.44%	84.03%

Note: The measurement period for the year ended June 30, 2018 is June 30, 2017. The schedule above is intended to show information for the last ten fiscal years. Additional years will be displayed as they become available.

HARRIS COUNTY BOARD OF EDUCATION

SCHEDULE "2"

**SCHEDULE OF CONTRIBUTIONS
TEACHERS RETIREMENT SYSTEM OF GEORGIA
FOR THE FISCAL YEAR ENDED JUNE 30**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required contribution	\$ 4,740,033	\$ 3,853,687	\$ 3,655,256	\$ 3,295,459	\$ 3,082,796
Contributions in relation to the contractually required contribution	<u>4,740,033</u>	<u>3,853,687</u>	<u>3,655,256</u>	<u>3,295,459</u>	<u>3,082,796</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll	\$28,286,318	\$ 27,264,400	\$ 26,025,629	\$25,060,528	\$ 25,104,204
Contributions as a percentage of covered payroll	16.76%	14.13%	14.04%	13.15%	12.28%
	<u>2013 (1)</u>	<u>2012 (1)</u>	<u>2011 (1)</u>	<u>2010 (1)</u>	<u>2009 (1)</u>
Contractually required contribution	\$ 2,874,146	\$ 2,633,682	\$ 2,672,359	\$ 2,548,542	\$ 2,417,119
Contributions in relation to the contractually required contribution	<u>2,874,146</u>	<u>2,633,682</u>	<u>2,672,359</u>	<u>2,548,542</u>	<u>2,417,119</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered payroll	\$25,189,708	\$ 25,619,473	\$ 25,995,712	\$26,165,727	\$ 26,046,546
Contributions as a percentage of covered payroll	11.41%	10.28%	10.28%	9.74%	9.28%

HARRIS COUNTY BOARD OF EDUCATION

SCHEDULE "3"

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY PUBLIC SCHOOLS EMPLOYEES RETIREMENT SYSTEM OF GEORGIA FOR THE FISCAL YEAR ENDED JUNE 30

	2018	2017	2016	2015
School District's proportion of the net pension liability	0.000000%	0.000000%	0.000000%	0.000000%
School District's proportionate share of the net pension liability	\$ -	\$ -	\$ -	\$ -
State of Georgia's proportionate share of the net pension liability associated with the School District	567,716	740,746	482,005	410,360
Total	<u>\$ 567,716</u>	<u>\$ 740,746</u>	<u>\$ 482,005</u>	<u>\$ 410,360</u>
School District's covered payroll	\$ 1,418,211	\$ 1,269,546	\$ 1,486,462	\$ 1,304,879
School District's proportionate share of the net pension liability as a percentage of its covered payroll	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability	85.69%	81.00%	87.00%	88.29%

Note: The measurement period for the year ended June 30, 2018 is June 30, 2017. The schedule above is intended to show information for the last ten fiscal years. Additional years will be displayed as they become available.

HARRIS COUNTY BOARD OF EDUCATION

SCHEDULE "4"

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
SCHOOL OPEB FUND
FOR THE FISCAL YEAR ENDED JUNE 30

	2018
School District’s proportion of the net OPEB liability	0.312230%
School District’s proportionate share of the net OPEB liability	\$ 43,868,189
State of Georgia’s proportionate share of the net OPEB liability associated with the School District	-
Total	\$ 43,868,189
School District’s covered-employee payroll	\$ 23,582,687
School District’s proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	186.02%
Plan fiduciary net position as a percentage of the total OPEB liability	1.61%

Note: The measurement period for the year ended June 30, 2018 is June 30, 2017. The schedule above is intended to show information for the last ten fiscal years. Additional years will be displayed as they become available.

HARRIS COUNTY BOARD OF EDUCATION

SCHEDULE "5"

**SCHEDULE OF CONTRIBUTIONS
SCHOOL OPEB FUND
FOR THE FISCAL YEAR ENDED JUNE 30**

	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 1,623,520	\$ 1,627,994
Contributions in relation to the contractually required contribution	<u>1,623,520</u>	<u>1,627,994</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 24,660,646	\$ 23,582,687
Contributions as a percentage of covered-employee payroll	6.58%	6.90%

Note: The schedule above is intended to show information for the last ten fiscal years. Additional years will be displayed as they become available.

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30**

Teachers Retirement System***Changes of assumptions:***

In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2010. In 2010, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In 2010, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

On November 18, 2015, the Board adopted recommended changes to the economic and demographic assumptions utilized by the System. Primary among the changes were the updates to rates of mortality, retirement, disability, withdrawal and salary increases. The expectation of retired life mortality was changed to RP-2000 White Collar Mortality Table with future mortality improvement projected to 2025 with the Society of Actuaries' projection scale BB and set forward one year for males.

Public School Employees Retirement System***Changes of assumptions:***

In 2010 and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2010. In 2010, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience.

On December 17, 2015, the Board adopted recommended changes to the economic and demographic assumptions utilized by the System. Primary among the changes were the updates to rates of mortality, retirement and withdrawal. The expectation of retired life mortality was changed to the RP-2000 Blue Collar Mortality Table projected to 2025 with projection scale BB and set forward three years for males and two years for females.

School OPEB Fund***Changes of benefit items:***

In June 30, 2010 actuarial valuation, there was a change of benefit terms to require Medicare-eligible recipients to enroll in a Medicare Advantage plan to receive the State subsidy.

Changes of assumptions:

In the revised June 30, 2017 actuarial valuation, there was a change relating to employee allocation. Employees were previously allocated based on their Retirement System membership, and currently employees are allocated based on their current employer payroll location. Additionally, there were changes to the discount rate and an increase in the investment rate of return due to a longer term investment strategy.

In the June 30, 2015 actuarial valuation, decremental and underlying inflation assumptions were changed to reflect the Retirement Systems' experience studies.

In the June 30, 2012 actuarial valuation, a data audit was performed and data collection procedures and assumptions were changed.

HARRIS COUNTY BOARD OF EDUCATION

SCHEDULE "7"

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Nonappropriated Budget		Actual	Variance With Final Budget
	Original ⁽¹⁾	Final ⁽¹⁾		
REVENUES				
Property taxes	\$ 21,901,844	\$ 21,901,844	\$ 24,137,326	\$ 2,235,482
Sales taxes	-	-	586,170	586,170
Other taxes	-	-	21,673	21,673
State funds	18,156,604	23,940,370	25,730,462	1,790,092
Federal funds	1,444,100	2,999,798	2,867,727	(132,071)
Charges for services	1,100,000	1,100,000	1,585,670	485,670
Miscellaneous	200	200	976,080	975,880
Total revenues	42,602,748	49,942,212	55,905,108	5,962,896
EXPENDITURES				
Current:				
Instruction	29,874,294	32,793,891	32,967,204	(173,313)
Support services:				
Pupil services	1,957,887	2,053,596	2,235,653	(182,057)
Improvement of instructional services	827,063	1,187,717	895,087	292,630
Educational media services	864,300	864,300	845,994	18,306
General administration	725,455	744,242	612,980	131,262
School administration	3,676,589	3,679,098	3,644,302	34,796
Business administration	1,989,865	1,289,865	1,255,235	34,630
Maintenance and operation of plant	3,880,819	3,880,819	3,763,291	117,528
Student transportation services	4,095,627	4,123,908	4,251,664	(127,756)
Central support services	451,125	451,125	279,327	171,798
Other support services	50,049	259,899	293,833	(33,934)
Enterprise operations	-	-	539,787	(539,787)
Food services operations	2,584,808	2,644,808	2,580,832	63,976
Community services operation	-	-	299,860	(299,860)
Total expenditures	50,977,881	53,973,268	54,465,049	(491,781)
Net change in fund balance	(8,375,133)	(4,031,056)	1,440,059	5,471,115
FUND BALANCE, beginning of year	8,373,841	8,373,841	8,373,841	-
FUND BALANCE, end of year	\$ (1,292)	\$ 4,342,785	\$ 9,813,900	\$ 5,471,115

Note to the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

(1) Original and Final Budget amounts do not include the budgeted revenues of the various school activity accounts and the after school program. The actual revenues and expenditures of the school activity accounts were \$1,311,029 and \$1,286,797, respectively. The actual revenues and expenditures of the after school program were \$356,753 and \$305,173, respectively.

The accompanying schedule of revenues, expenditures and changes in fund balances - budget and actual is presented on the modified accrual basis of accounting which is the basis of accounting used in the presentation of the fund financial statements.

HARRIS COUNTY BOARD OF EDUCATION

SCHEDULE "8"

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Funding Agency Program/Grant	CFDA Number	Pass-Through Entity ID Number	Expenditures In Period
Agriculture, U.S. Department of			
Child Nutrition Cluster			
Pass-Through From Georgia Department of Education			
Food Services			
School Breakfast Program	10.553	18185GA324N1099	\$ 282,341
National School Lunch Program	10.555	18185GA324N1100	1,761,762
Total Child Nutrition Cluster			<u>2,044,103</u>
Other Programs			
Pass-Through From Georgia Department of Education			
Food Services			
Child Nutrition Discretionary Grants Limited Availability	10.579	16163GA350N8103	12,352
Total U. S. Department of Agriculture			<u>2,056,455</u>
Education, U.S. Department of			
Direct			
Impact Aid			
School and Community Based Programs	84.041	N/A	19,400
Education, U.S. Department of			
Special Education Cluster			
Pass-Through From Georgia Department of Education			
Special Education			
Grants to States	84.027	H027A160073	6,905
Grants to States	84.027	H027A170073	826,751
Preschool Grants	84.173	H173A160081	3,051
Preschool Grants	84.173	H173A170081	37,086
Total Special Education Cluster			<u>873,793</u>
Other Programs			
Pass-Through From Georgia Department of Education			
Supporting Effective Instruction State Grants	84.367	S367A160001	35,959
Supporting Effective Instruction State Grants	84.367	S367A170001	52,989
Title I Grants to Local Educational Agencies	84.010	S010A160010	19,129
Title I Grants to Local Educational Agencies	84.010	S010A170010	462,208
Student Support and Academic Enrichment	84.424	S424A170011	13,557
Career and Technical Education - Basic Grants to States	84.048	V048A160010	2,019
Career and Technical Education - Basic Grants to States	84.048	V048A170010	36,347
Pass-Through From Southwest Georgia Regional Educational			
Services Agency			
Title III - Limited English Proficient	84.365	S365A170010	983
Total U.S. Department of Education			<u>1,516,384</u>
Defense, U.S. Department of			
Direct			
Department of the Air Force			
R.O.T.C. Program	12.unknown	N/A	74,871
Total Expenditures of Federal Awards			<u>\$ 3,647,710</u>

N/A = Not Available

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Harris County Board of Education (the "School District") under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Board has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

HARRIS COUNTY BOARD OF EDUCATION

SCHEDULE "9"

SCHEDULE OF STATE REVENUE FOR THE FISCAL YEAR ENDED JUNE 30, 2018

<u>Agency/Funding</u>	<u>Governmental Fund Type General Fund</u>
Grants	
Bright from the Start:	
Georgia Department of Early Care and Learning	
Pre-Kindergarten Program	\$ 1,080,555
Education, Georgia Department of	
Quality Basic Education	
Direct Instructional Cost	
Kindergarten Program	1,493,436
Kindergarten Program - Early Intervention Program	87,837
Primary Grades (1-3) Program	3,894,179
Primary Grades - Early Intervention (1-3) Program	95,868
Upper Elementary Grades (4-5) Program	2,076,173
Upper Elementary Grades - Early Intervention (4-5) Program	65,448
Middle School (6-8) Program	3,366,182
High School General Education (9-12) Program	2,864,650
Career Technical and Agricultural Education Program 9-12 (CTAE) (Function 100 Only)	1,383,908
Students with Disabilities	3,051,555
Gifted Students - Category VI	774,660
Remedial Education Program	528,819
Alternative Education Program	251,104
English Speakers of Other Languages (ESOL)	25,674
Media Center Program	560,214
20 Days Additional Instruction	181,674
Staff and Professional Development	86,868
Principal, Staff, and Professional Development	1,716
Indirect Cost	
Central Administration	794,058
School Administration	1,123,347
Facility Maintenance and Operations	1,222,899
Categorical Grants	
Pupil Transportation	
Regular	561,704
State Bonds	77,320
Nursing Services	102,960
Mid Term Hold Harmless	20,036
Vocational Supervisors	33,006
Food Services	60,962
Career, Technical and Agricultural Education (CTAE) (Total Pgms 3100-3999)	46,109
Amended Formula Adjustment	(393,919)
Other State Programs	
Math and Science Supplements	18,373
Preschool Handicapped Program	17,979
Teacher of the Year	507
On-Behalf Payments	
Georgia Department of Education	
Paid to the Teachers Retirement System	15,745
Office of Treasury and Fiscal Services	
Paid to the Public School Employees Retirement System	108,549
Contract	
Human Resources, Georgia Department of	
Family Connection	50,307
Grand Total	<u>\$ 25,730,462</u>

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HARRIS COUNTY BOARD OF EDUCATION

SCHEDULE "10"

**SCHEDULE OF APPROVED LOCAL OPTION SALES TAX PROJECTS - SPLOST V
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Original Estimated Cost (1)	Current Estimated Costs (2)	Expended In Current Year (3)	Expended In Prior Years (3)	Total Completion Cost	Estimated Completion Date
<u>Project SPLOST V</u>						
A one percent sales and use tax be reimposed in the School District to raise not more than \$14,500,000 for the purposes of providing funds to pay, or to reimburse the School District for the cost of paying, or to be applied toward the cost of:	\$ 14,500,000	\$ 14,500,000	\$ -	\$ -	\$ -	
(i) acquiring, constructing, equipping and furnishing new buildings and facilities, including but not limited to transportation facilities and physical education venues,						12/31/2021
Swimming scoreboard	-	-	-	19,200	-	
Transportation facility	-	-	3,335,309	21,094	-	
Purchase Building adjacent to HCHS	-	-	316,791	-	-	
(ii) adding to, renovating, improving, equipping and furnishing existing school buildings and facilities and other facilities, including but not limited to roofs and lunchroom at Harris County Carver Middle School, and HVAC at New Mountain Hill Elementary School,						12/31/2021
Maintenance department supplies	-	-	8,289	6,031	-	
Old gym removal	-	-	-	31,700	-	
Intercom System PRES	-	-	1,654	-	-	
Gym Floor Refinishing	-	-	6,400	-	-	
System-wide repainting	-	-	85,450	79,530	-	
System-wide Carpet and Building Repairs	-	-	401,801	-	-	
System-wide security cameras	-	-	24,467	-	-	
System-wide technology improvements	-	-	145,553	164,493	-	
System-wide furniture	-	-	70,805	5,685	-	
System-wide handicap accessible ramp repairs	-	-	-	1,634	-	
System-wide energy project - ABM	-	-	395,567	192,023	-	
Paving at Central Office	-	-	21,075	-	-	
HCHS Auditorium Sound System	-	-	40,000	-	-	
HCCMS Speed Bumps	-	-	711	-	-	
Man Lift	-	-	9,254	-	-	
Baseball Fieldhouse and Sprinkler System	-	-	29,193	-	-	
(iii) acquiring instructional and administrative information technology equipment, computer software and hardware, physical education equipment, fine arts equipment, safety and security equipment and other school equipment,						12/31/2021
System-wide school nutrition POS system	-	-	-	26,450	-	
Technology supplies	-	-	-	86,568	-	
Mobile Learning Lab	-	-	12,706	-	-	
(iv) acquiring school buses and other school vehicles,	-	-	425,109	250,200	-	12/31/2021
Reflooring Buses	-	-	23,240	-	-	
(v) acquiring textbooks, and	-	-	259,208	73,676	-	12/31/2021
(vi) acquiring any capital property necessary or desirable for the foregoing purposes, both real and personal.	-	-	-	-	-	12/31/2021
Total SPLOST V	\$ 14,500,000	\$ 14,500,000	\$ 5,612,582	\$ 958,284	\$ -	

(1) The School District's original cost estimate as specified in the resolution calling for the imposition of the local Option Sales Tax .

(2) The School District's current estimate of total cost for the projects. Includes all cost from project inception to completion.

(3) The voters of Harris County approved the imposition of a 1% sales tax to fund the above projects and retire associated debt. Amounts expended for these projects include sales tax proceeds plus interest earned on the accounts.

SECTION II

COMPLIANCE AND INTERNAL CONTROL REPORTS



DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

December 12, 2019

The Honorable Brian P. Kemp, Governor of Georgia
Members of the General Assembly of the State of Georgia
Members of the State Board of Education
and
Superintendent and Members of the
Harris County Board of Education

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harris County Board of Education (School District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 12, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Greg S. Griffin". The signature is fluid and cursive, with the first and last names being more prominent.

Greg S. Griffin
State Auditor



DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington Street, S.W., Suite 1-156
Atlanta, Georgia 30334-8400

Greg S. Griffin
STATE AUDITOR
(404) 656-2174

December 12, 2019

The Honorable Brian P. Kemp, Governor of Georgia
Members of the General Assembly of the State of Georgia
Members of the State Board of Education
and
Superintendent and Members of the
Harris County Board of Education

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

We have audited the Harris County Board of Education's (School District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018. The School District's major federal programs are identified in the *Summary of Auditor's Results* section of the accompanying *Schedule of Findings and Questioned Costs*.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School District's compliance.

Basis for Qualified Opinion on Child Nutrition Cluster (CFDA 10.553, 10.555)

As described in the accompanying *Schedule of Findings and Questioned Costs*, the School District did not comply with requirements regarding Child Nutrition Cluster (CFDA 10.553, 10.555) as described in item FA 2018-001 for Eligibility and Special Tests and Provisions – Verification. Compliance with such requirements is necessary, in our opinion, for the School District to comply with requirements applicable to that program.

Qualified Opinion on Child Nutrition Cluster (CFDA 10.553, 10.555)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on Child Nutrition Cluster (CFDA 10.553, 10.555) for the year ended June 30, 2018.

Other Matters

The School District's response to the noncompliance findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. The School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying *Schedule of Findings and Questioned Costs* as item FA 2018-001 that we consider to be a material weakness.

The School District's response to the internal control over compliance findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. The School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Greg S. Griffin", with a stylized flourish at the end.

Greg S. Griffin
State Auditor

SECTION III

AUDITEE'S RESPONSE TO PRIOR YEAR FINDINGS AND QUESTIONED COSTS

HARRIS COUNTY BOARD OF EDUCATION
AUDITEE'S RESPONSE
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

PRIOR YEAR FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

FS 2017-001	<u>Controls Over Financial Reporting</u>
Control Category:	Financial Reporting
Internal Control Impact:	Material Weakness
Compliance Impact:	None
Finding Status:	Previously Reported Corrective Action Implemented

PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV

FINDINGS AND QUESTIONED COSTS

HARRIS COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

I SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issue:
Governmental Activities; General Fund; Capital Projects Fund; Debt
Service Fund; Aggregate Remaining Fund Information Unmodified

Internal control over financial reporting:
▪ Material weakness identified? No
▪ Significant deficiency identified? None Reported

Noncompliance material to financial statements noted: No

Federal Awards

Internal Control over major programs:
▪ Material weakness identified? Yes
▪ Significant deficiency identified? None Reported

Type of auditor's report issued on compliance for major programs:

Child Nutrition Cluster was qualified.

Any audit findings disclosed that are required to be reported in
accordance with 2 CFR 200.516(a)? Yes

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? No

HARRIS COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

II FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

No matters were reported.

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FA 2018-001	<u>Improve Controls Over Eligibility Determinations and Verification</u>
Compliance Requirement:	Eligibility Special Tests and Provisions
Internal Control Impact:	Material Weakness
Compliance Impact:	Material Noncompliance
Federal Awarding Agency:	U.S. Department of Agriculture
Pass-Through Entity:	Georgia Department of Education
CFDA Number and Title:	Child Nutrition Cluster (CFDA 10.553 and 10.555)
Federal Award Numbers:	18185GA324N1099 – School Breakfast Program 18185GA324N1100 – National School Lunch Program
Questioned Costs:	\$3,034.56

Description:

A review of free and reduced meal applications related to the Child Nutrition Cluster (CFDA 10.553 and 10.555) revealed that the School District's internal control procedures were not operating appropriately to ensure that appropriate reviews and approvals occurred, proper eligibility and verification standards were applied, and adequate documentation was maintained.

Criteria:

7 CFR 245.6(c)(1) states in part that "the local educational agency must determine household eligibility for free or reduced price meals either through direct certification or the application process at or about the beginning of the school year." In addition, 7 CFR 245.6(e) states in part that "the local educational agency must maintain documentation substantiating eligibility determinations on file for 3 years after the date of the fiscal year to which they pertain..."

7 CFR 245.6a(f)(6) states in part that "the local educational agency shall make at least one attempt to contact any household that does not respond to a verification request. The attempt may be through a telephone call, e-mail, mail or in person and must be documented by the local educational agency. Non-response to the initial request for verification includes no response and incomplete or ambiguous responses that do not permit the local educational agency to resolve the children's eligibility for free or reduced price meal and milk benefits." Additionally, 7 CFR 245.6a(f)(7) states in part that "the local educational agency shall make appropriate modifications to the eligibility determinations made initially. The local educational agency must notify the household of any change. Households must be notified of any reduction in benefits... Households with reduced benefits or that are no longer eligible for free or reduced price meals must be notified of their right to reapply at any time."

Furthermore, 2 CFR 200.303(a) states in part that the "non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award... (c) Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards."

HARRIS COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Condition:

A sample of 60 free and reduced meal applications was selected for testing using a non-statistical sampling approach. These applications were reviewed to determine if appropriate internal controls were implemented and applicable compliance requirements were met. The following deficiencies were noted:

- Evidence of review and approval of the eligibility determination for free and reduced meals was not reflected for 30 applications tested.
- Three applications could not be located for review by School District personnel.
- One application reflected a total number of household members that did not agree to the detailed listing of persons residing in that household.
- The eligibility determination performed for one application was incorrect based upon the details reflected on the application and Federal income eligibility and household size guidelines. The application reflected a reduced price eligibility status while a paid status was appropriate.

In addition, the 19 free and reduced meal applications selected for verification were reviewed to ensure that the School District performed verification procedures properly and made appropriate changes to each student's eligibility status based upon supporting documentation obtained. The following deficiencies were noted:

- Evidence of review and approval of the final eligibility determination for free and reduced meals was not reflected for eight applications tested.
- Evidence of required correspondence, including follow-up due to non-response and change in eligibility status, was not maintained for nine applications that were changed from free or reduced to paid.
- Initial free and reduced meal eligibility determination documentation was not maintained for two applications tested.

Questioned Cost:

Questioned costs of \$3,034.56, with likely questioned costs of \$81,275.63, were identified for incorrect or undocumented eligibility determinations associated with free and reduced meals received by students.

Cause:

In discussing these deficiencies with the School District, they indicated that new staff completed the review process for free and reduced meal applications. In addition, these applications were not subject to a final review prior to submission into the School District's point-of-sale system.

Effect or Potential Effect:

Failure to make accurate eligibility determinations, maintain required documentation of eligibility determinations and perform supervisory reviews of eligibility determinations exposes the School District to unnecessary risk of error and misuse of Federal Funds. Additionally, the School District is not in compliance with the Uniform Guidance and Georgia Department of Education guidance.

HARRIS COUNTY BOARD OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Recommendation:

The School District should review current internal control procedures related to the Child Nutrition Cluster eligibility determinations for free and reduced meals and verification of free and reduced meal applications. Where vulnerable, the School District should develop and/or modify its policies and procedures to ensure that all Federal requirements for eligibility are met, verification procedures are performed appropriately, and adequate documentation is maintained on-file according to the School District's record retention policy. Furthermore, management should develop and implement a monitoring process to ensure that controls are properly implemented.

Views of Responsible Officials:

We concur with this finding.

Auditor's Concluding Remarks:

SECTION V

MANAGEMENT'S CORRECTIVE ACTION

Harris County Board Of Education

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Dr. Justin Finney

ASSISTANT SUPERINTENDENT
HUMAN RESOURCES
Mrs. Stacey Carlisle

ASSISTANT SUPERINTENDENT
SUPPORT SERVICES
Mrs. Shelia Baker

CORRECTIVE ACTION PLANS - FINANCIAL STATEMENT FINDINGS

No matters were reported.

CORRECTIVE ACTION PLANS – FEDERAL AWARD FINDINGS

FA 2018-001	<u>Improve Controls Over Eligibility Determinations and Verification</u>
Compliance Requirement:	Eligibility Special Tests and Provisions
Internal Control Impact:	Material Weakness
Compliance Impact:	Material Noncompliance
Federal Awarding Agency:	U.S. Department of Agriculture
Pass-Through Entity:	Georgia Department of Education
CFDA Number and Title:	Child Nutrition Cluster (CFDA 10.553 and 10.555)
Federal Award Number:	18185GA324N1099 – School Breakfast Program 18185GA324N1100 – National School Lunch Program
Questioned Costs:	\$3,034.56

A review of free and reduced meal applications related to the Child Nutrition Cluster (CFDA 10.553 and 10.555) revealed that the School District's internal control procedures were not operating appropriately to ensure that appropriate reviews and approvals occurred, proper eligibility and verification standards were applied, and adequate documentation was maintained.

Corrective Action Plans:

The Harris County School District Nutrition Program will adopt several procedures to address the areas mentioned including the processing of application within ten days of receipt (new students will be processed immediately), outlines of responsibility for managers and Central Office staff (including the review and filing of applications), and clear application requirements for reviewing staff and parents of the following applications: Eligible SNAP/TANF, Foster Child Applications, and Income Eligible Applications. Additionally, verification procedures will be established by the Harris County School District Nutrition Program for the selection of applications and the review of those selected.

Estimated Completion Date: April 10, 2019

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